Oregon Student Assistance Commission's Administration of the Federal Family Education Loan Program Federal and Operating Funds

FINAL AUDIT REPORT

ED-OIG/A09-B0016
MAY 2002

Our mission is to promote the efficiency, effectiveness, and integrity of the Department's programs and operations

U.S. Department of Education
Office of Inspector General
Sacramento, California

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

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May 9, 2002

MEMORANDUM

TO: Mr. Greg Woods
Chief Operating Officer
Federal Student Aid

FROM: Gloria Pilotti Gloria Pilotti
Regional Inspector General for Audit

SUBJECT: FINAL AUDIT REPORT
Oregon Student Assistance Commission's Administration of the Federal Family Education Loan Program Federal and Operating Fund
ED-OIG/A09-B0016

Attached is our subject report presenting our findings and recommendations resulting from our audit of the Oregon Student Assistance Commission.

In accordance with the Department's Audit Resolution Directive, you have been designated as the action official responsible for the resolution of the findings and recommendations in this report.

If you have any questions, please contact me at (916) 930-2399.

Please refer to the above control number in all correspondence relating to this report.

Attachment

cc: John Reeves, Financial Partners Channel, FSA
Faye Harris, Audit Liaison Officer, FSA

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EXECUTIVE SUMMARY

The Oregon Student Assistance Commission (OSAC) did not fully comply with the Higher Education Act of 1965 (HEA), as amended, and applicable Federal regulations in its establishment and in the use of Federal and Operating Funds for the Federal Family Education Loan (FFEL) program. We found that—

- OSAC improperly excluded about $1.6 million from the fund balance when it established the Federal Fund. OSAC claimed that the amount was owed to the Commission for the remaining principal balance and accrued interest on State funds, held in the reserve fund, for the period October 1967 through November 1998.

- OSAC improperly deposited about $160,000 of supplemental preclaims assistance payments received after October 1, 1998, in the Operating Fund instead of the Federal Fund.

- OSAC did not comply with Federal regulations and Office of Management and Budget (OMB) Circular A-87 for costs charged to the Operating Fund as required by 34 C.F.R. § 682.423(a). Specifically, OSAC did not (1) follow the OMB Circular A-87 in developing its cost allocation plan, (2) consistently apply the percentages stated in its cost allocation plan, (3) provide periodic certifications for staff who worked solely on the FFEL program, and (4) ensure that charges to the Operating Fund were allocable to the FFEL program and adequately documented.

We recommended that the Chief Operating Officer for Federal Student Aid[1] require OSAC to transfer about $2 million from its Operating Fund to the Federal Fund and to take corrective action to ensure that costs charged to the Operating Fund comply with Federal requirements.

The OTHER MATTERS section of the report provides information on additional areas that came to our attention during the review regarding (1) investment interest income earned on the Federal share of collections, (2) late payment of usage fees, and (3) sponsorship fees for the "Mapping Your Future" program exceeded the allowed contribution limit.

In its comments to the draft report, OSAC did not agree with our finding that it improperly excluded $1.6 million from the fund balance when it established the Federal Fund. OSAC generally agreed with the other findings and recommendations. The full text of OSAC comments is provided as an attachment to the report.

[1] Formerly the U.S. Department of Education's Student Financial Assistance (SFA). SFA changed its name to Federal Student Aid on March 6, 2002.

AUDIT RESULTS

We concluded that OSAC complied with the HEA and regulations governing the initial establishment of the Federal and Operating Funds, except that OSAC improperly excluded about $1.6 million from the Federal Fund. We found that OSAC did not fully comply with the HEA and regulations governing sources of funds when it did not deposit supplemental preclaims assistance payments, totaling about $160,000, in the Federal Fund. From our review of financial transactions for the period July 1, 1998, through June 30, 2001 and cost allocation plans for fiscal years 1999 through 2002, we found that OSAC had not fully complied with regulations governing uses of funds and OMB Circular A-87 when it charged administrative costs to the Operating Fund. We concluded that OSAC had properly identified the ownership of fixed assets, but, as disclosed in the OTHER MATTERS section of the report, OSAC did not deposit usage fees in the Federal Fund on a timely basis.

FINDING NO. 1 – OSAC Improperly Excluded $1.6 Million When It Established the Federal Fund

The 1998 amendments to the HEA of 1965, enacted on October 7, 1998, required each guaranty agency to establish a Federal Fund and an Operating Fund. HEA § 422A(a) states—

> Each guaranty agency shall, not later than 60 days after the date of enactment of this section, deposit all funds, securities, and other liquid assets contained in the reserve fund established pursuant to section 422 into a Federal Student Loan Reserve Fund [Federal Fund] . . . .

Our review found that at the time OSAC established the Federal Fund, it improperly placed $1,586,006 from its FFEL Program Account[2] into the Operating Fund rather than the Federal Fund. According to OSAC officials, the $1,586,006 represented State money ($18,573) held in the FFEL Program Account on December 6, 1998, and accrued interest ($1,567,433) on State money held in the FFEL Program Account during various times from October 1967 to November 1998. OSAC provided an agency-prepared worksheet as support for its calculation of the $1,586,006. The worksheet shows the State money that OSAC claimed was in its reserve each month and the accrued interest compounded monthly.

To identify the State money in its reserve each month, OSAC used amounts reported on

[2] Prior to December 6, 1998, OSAC had one account with the Oregon State Treasury (called the FFEL Program Account) which contained the money for two OSAC funds: Fund 0110–FFEL Program Limited Fund and Fund 0150–FFEL Program Non-limited Fund. As of December 6, 1998, the money in the FFEL Program Account was allocated to two OSAC funds with separate accounts in the Oregon State Treasury: Fund 0165–Federal Student Loan Reserve (referred to as the Federal Fund in our report) and Fund 0110–Student Loan Guarantee Fund Account (referred to as the Operating Fund in our report).

ED's Form 1130[3] (Line 1 – State Appropriations and Funds from Other Sources). The amounts included State funds available to OSAC under a continuing appropriation. OSAC's audited financial statements for the period July 1, 1966 to December 31, 1967 included the following reference to the State of Oregon statute that provided the initial appropriation in 1967.

> Oregon Revised Statute 348.570(3) states—
>
> "Out of the moneys in the General Fund, there is continuously appropriated to the State Scholarship Commission such sums as are necessary, but not to exceed $240,000 in total [this amount was increased to $550,000 in 1975], to guarantee payment of loans made by eligible lending institutions to student residents of the State of Oregon… Funds may be disbursed from this appropriation on order of the State Scholarship Commission to reimburse eligible lending institutions where the lendee has failed to repay the principal sum of any loan specifically guaranteed by the appropriation made by this subsection."

We concluded from information contained in OSAC's audited financial statements covering periods from July 1, 1966, through December 31, 1976, that the entire amounts of the 1967 and 1975 continuing appropriations were not deposited in the FFEL Program Account. The audited financial statements showed the following amounts were used from the continuing appropriations to reimburse lenders.

1967 and 1975 Continuing Appropriations		
Financial Statement Period		**Expenditures**
From	**To**	
July 1, 1966	December 31, 1967	$ —
January 1, 1968	December 31, 1968	4,484
January 1, 1969	December 31, 1969	18,871
January 1, 1970	December 31, 1971	800
January 1, 1972	December 31, 1973	—
January 1, 1974	December 31, 1976	—
Total Expenditures		**$24,155**[a]

[a] The actual amount may be lower because recoveries from borrowers on the defaulted loans were deposited to the credit of the State General Fund. Note 4 to the Financial Statements for January 1, 1974, to June 30, 1976, states—

> Prior to the 1975 enactment, the accounting records reflected appropriations totaling $22,847.32 . . . Taking into account payments and recoveries of payments, the amount of the continuous appropriation is overstated by approximately $14,500.

For this same period, the agency-prepared worksheet showed amounts totaling $568,573.

The audited financial statements also disclosed that funds from the continuing appropriation were transferred to the FFEL Program Account, as needed, to reimburse lenders. The financial

[3] The 1968 through 1984 versions of the Form 1130 used by OSAC to identify the State money in its reserve each month are obsolete.

statements for January 1, 1968, through December 31, 1968, included the following explanation regarding an amount due to the FFEL Program Account from the continuing appropriation.[4]

> The $507.50 balance is the amount required to be transferred from the continuing guarantee loan appropriation for the purpose of reimbursing lending banks for loans defaulted prior to December 31, 1968. The continuing guarantee loan appropriation is reflected in the records [of the FFEL Program Account] only as it is needed to reimburse lenders for defaulted loans . . . .

Thus, the funds provided by the continuing appropriations did not remain in the FFEL Program Account for a lengthy period of time.

Based on the information presented in its audited financial statements, OSAC did not have a valid basis for excluding the $1,586,006 from the Federal Fund. OSAC has not provided us with documentation to show that the 1967 and 1975 appropriations in their entirety or that interest earned on those funds were deposited in the FFEL Program Account.

Recommendations

We recommend that the Chief Operating Officer for Federal Student Aid require OSAC to—

1.1. Transfer $1,859,592 from the Operating Fund to the Federal Fund. This amount is comprised of the $1,586,006 plus $273,586 of imputed interest from October 1, 1998, through December 31, 2001.[5]

1.2. Return to the Federal Fund interest earned on the $1,586,006 from December 31, 2001. This interest should be computed using the CVFR and calculated through the date that the $1,586,006 was transferred to the Federal Fund.

OSAC Comments

OSAC did not agree with our finding and recommendations. In its comments to our draft report, OSAC stated its belief that the Federal and Operating Funds were accurately and appropriately established. OSAC described the process it used to determine that the funds and accrued interest from the 1967 and 1975 continuing appropriations were in the FFEL Program Account. OSAC stated that it—

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[4] The financial statements also provided an explanation of the amount reported on the Form 1130: "It is noted that the unrecorded balance of this continuing appropriation at December 31, 1968, is $235,515.85, and that reports to the Federal Government include this appropriation as a part of the reserve fund balance used in computing the total loan capacity available under the Guarantee Student Loan Program [FFEL Program]."

[5] We calculated the imputed interest using the U.S. Treasury Current Value of Funds Rate (CVFR) of five percent for calendar years 1998, 1999, and 2000 and the CVFR of six percent for calendar year 2001.

- Confirmed that the State of Oregon provided State funds for the purpose of administering the FFEL program and that the funds were continuously appropriated.
- Contacted the State of Oregon Audits Division and the State of Oregon Treasury to gain an understanding of the accounting treatment for continuous appropriations. According to OSAC, it was informed by these state agencies that "[m]onies continuously appropriated are held at Treasury, but are tracked individually with both principle [sic] and interest accruing to the designated FFELP [FFEL Program] account."
- Verified that balances on its Form 1130s were accurate and represented actual funds available.
- Obtained a certified public accountant's (CPA's) confirmation of OSAC's interest calculation and the CPA's analysis of interest earnings, and conclusion from that analysis, that the FFEL Program Account contained the State funds.

OSAC also stated that the U.S. Department of Education did not raise questions during its two reviews that specifically looked at OSAC's establishment of the Operating Fund. OSAC stated that it plans to obtain additional documentation to support its position that the funds and accrued interest from the 1967 and 1975 continuing appropriations were in the FFEL Program Account. As part of its response, OSAC provided letters from its CPA and the Oregon State Treasury. OSAC stated that, in combination, the two letters further reinforce its position.

OIG Response

OSAC provided no additional reliable evidence that would contradict the information contained in its audited financial statements regarding the accounting for the 1967 and 1975 continuing appropriations. The State of Oregon Treasury letter and records, which were submitted for our review, provided no evidence that the total amount of State funds provided by the continuing appropriations or that interest earned on those State funds were deposited in the FFEL Program Account.

The CPA analyzed interest earnings reported for three separate financial statement periods: January 1, 1972 through December 31, 1973; January 1, 1974 through June 30, 1976; and July 1, 1981 through June 30, 1984. We found that the CPA's analysis of interest earnings was based on unsubstantiated assumptions rather than verified facts. Also, the analysis was incomplete, contained calculation errors, and generally disregarded explanations and financial statements information that were contrary to OSAC's assertions.

We did not contest the fact that the 1967 and 1975 continuing appropriations made State funds available for the purpose of administering the FFEL program. Nor have we questioned the accuracy of OSAC's Form 1130s or that the amounts shown on the forms represented actual funds available to guarantee loans. Neither the existence of the continuing appropriations nor the accuracy of the Form 1130s provide evidence that the State funds were, in fact, held in the FFEL Program Account or that interest earned on those State funds were deposited in the FFEL Program Account.

Even if OSAC was able to document that the full amount or a partial amount of State funds from the 1967 and 1975 continuing appropriations were placed in the FFEL Program Account, it still would have been improper for OSAC to exclude the $1.6 million from the fund balance when it established the Federal Fund. Once funds are deposited into the FFEL Program Account, the funds lose their character as State funds and became the property of the Federal Government. The 1998 Amendments to the HEA required that the assets of the FFEL Program Account be deposited in the Federal Fund. OSAC provided no authority for excluding the amount it claimed to be State funds or accrued interest from the Federal Fund.

The Department's regulations permit a guaranty agency to return funds provided to the agency by a State under certain limited circumstances. Specifically, the regulations at 34 C.F.R. § 682.410(a)(2)(ix)(A) allow a guaranty agency to repay funds to a state if the agency provides the Department with 30 days prior notice of the repayment and demonstrates that: (1) the amounts were originally received on a temporary basis only as shown by appropriate contemporaneous documentation; (2) the objective for which the funds were provided has been fully achieved; and (3) repayment of the funds will not cause the agency to drop below the required minimum reserve levels. OSAC did not notify the Department of the proposed repayment of the funds or meet any of the conditions. Also, the HEA and the Department's regulations contain no provision for charging interest to the Federal Government on State funds held in the FFEL Program Account. Thus, even if the State funds and related accrued interest had been deposited in the FFEL Program Account, OSAC would have had no authority to unilaterally return the funds to the State or to deposit those funds into the Operating Fund.

Staff from the Department's Federal Student Aid, Financial Partners Channel did conduct a technical review in March 2000 and program review in January 2001, that covered aspects of the establishment of the Federal and Operating Funds. Financial Partners Channel staff obtained OSAC's calculation of the $1.6 million, but did not request support for OSAC's assertion that the State funds and accrued interest from the 1967 and 1975 continuing appropriations were in the FFEL Program Account or review the working papers supporting the CPA's conclusions. The limited nature of the technical and program reviews neither negates OSAC's responsibility to comply with HEA and applicable regulations in the establishment of the Federal and Operating Funds, nor limits the OIG's authority to report noncompliance and recommend corrective action.

FINDING NO. 2 – OSAC Improperly Deposited $160,000 of Supplemental Preclaims Assistance in the Operating Fund

Guaranty agencies are required to deposit supplemental preclaims activity payments for activity periods prior to October 1, 1998, in the Federal Fund.

> After the establishment of the Federal Fund, a guaranty agency shall deposit into the Federal Fund . . . all amounts received from the Secretary as payment for supplemental preclaims activity performed prior to the date of enactment of this section . . . .
> HEA § 422A(c)(4)
>
> The agency must deposit into the Federal Fund . . . Federal payments for supplemental preclaims assistance activities performed before October 1, 1998 . . . .
> 34 C.F.R. § 682.419(b)(4)

We found that over the period December 1998 through May 1999, OSAC improperly deposited $160,099 of supplemental preclaims activity payments in the Operating Fund. The deposits represented supplemental preclaims activity payments for activities performed prior to October 1, 1998.

The following table shows the amounts received and the imputed interest through December 31, 2001.

Supplemental Preclaims Activity Payments		
Date Received	**Amount**	**OIG Imputed Interest[a]**
12/07/98	$ 39,817	$ 6,371
12/29/98	43,749	7,000
01/29/99	25,535	3,979
02/24/99	24,924	3,780
03/18/99	17,151	2,530
04/15/99	8,802	1,262
05/11/99	121	16
Totals	**$160,099**	**$24,938**

[a] We calculated the imputed interest using the CVFR of five percent for calendar years 1998, 1999, and 2000, and the CVFR of six percent for calender year 2001.

Recommendations

We recommend that the Chief Operating Officer for Federal Student Aid require OSAC to—

2.1. Transfer $185,037 ($160,099 plus $24,938 of imputed interest through December 31, 2001) from the Operating Fund to the Federal Fund.

2.2. Return to the Federal Fund interest earned on the $160,099 from December 31, 2001. This interest should be computed using the CVFR and calculated through the date that the $160,099 was transferred to the Federal Fund.

OSAC Comments

OSAC concurred with the finding and recommendations. OSAC stated that it began handling the transactions correctly once the error was recognized.

FINDING NO. 3 – OSAC Did Not Comply with Federal Regulations and OMB Circular A-87 for Costs Charged to the Operating Fund

OSAC is required to comply with OMB Circular A-87, which sets forth the cost principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments. OSAC is also required to comply with Federal regulations at 34 C.F.R. § 682.423(a). When OSAC established the Operating Fund, it transferred $2.7 million from the Federal Fund to the Operating Fund with a plan to return the funds in two equal installments in September 2002 and 2003. Federal regulations at 34 C.F.R. § 682.423(a) state—

> During periods in which the Operating Fund contains funds transferred from the Federal Fund, the Operating Fund may be used only as permitted by 34 C.F.R. §§ 682.410(a)(2) and 682.418.

Among the provisions in the cited sections are the requirements that (1) costs charged to the Operating Fund are ordinary and necessary for the agency to fulfill its responsibilities under the HEA, (2) costs charged are allocable to the FFEL program, and (3) guaranty agencies that share costs with other programs shall develop a cost allocation plan consistent with the requirements described in OMB Circular A-87.

OSAC did not fully comply with OMB Circular A-87 and 34 C.F.R. § 682.423(a) for costs charged to the Operating Fund. Specifically, OSAC did not (1) follow OMB Circular A-87 in developing its cost allocation plan, (2) consistently apply the percentages shown in its cost allocation plan, (3) provide periodic certifications for staff who worked solely on the FFEL program, and (4) ensure that costs charged were allocable, and adequately documented.

OSAC Did Not Follow OMB Circular A-87 in Developing Its Cost Allocation Plan

In addition to the FFEL program, OSAC administers the State Opportunity Grant Program, over 200 privately funded scholarship programs, and other programs. The regulations at 34 C.F.R. § 682.418(c) state—

> Each guaranty agency that shares costs with any other program . . . shall develop a cost allocation plan consistent with the requirements described in OMB Circular A-87 and maintain the plan and related supporting documentation for audit . . . .

A cost allocation plan is used to facilitate an equitable distribution of costs that are (a) incurred for a common or joint purpose benefiting more than one program, and (b) not readily assignable to the program specifically benefitted, without expending effort disproportionate to the results achieved. OMB Circular A-87, Attachment E, C.3.c lists the criteria for an acceptable allocation base—

> (1) [I]t can readily be expressed in terms of dollars or other quantitative measures (total direct costs, direct salaries and wages, . . .) and (2) it is common to the benefitted functions during the base period.

OSAC's cost allocation plans contain percentages for charging general administrative costs to the FFEL program and non-FFEL programs. OSAC developed separate percentages for each administrative position and each group of services and supplies costs that could not be directly associated with a program.

Our review of OSAC's cost allocation plans for fiscal years 1999, 2000, 2001, and 2002 found that (1) OSAC could not provide documentation showing its calculation of the percentages, and (2) the allocation bases described in the plans for fiscal years 2000, 2001, and 2002 did not meet the criteria specified in Attachment E, C.3.c.

<u>Administrative employee salary costs</u>

Cost allocation plan for fiscal year 1999. The plan states that OSAC used data from work activity logs prepared by employees during July 1997 through May 1998 to allocate administrative employee salary costs.[6] The logs showed the hours recorded for activities related to FFEL program and non-FFEL programs and activities that could not be identified to one program. OSAC provided the work activity logs for our review, but it had not retained documentation showing the calculation of the allocation percentages from the information on the logs and OSAC staff could not provide a verbal explanation of the procedures used to perform the calculations.

[6] OSAC did not require administrative employees to prepare work activity logs after May 1998.

Cost allocation plans for fiscal years 2000, 2001, and 2002. For administrative salary costs, the plans state that OSAC used data collected from the administrative employees and their official job descriptions to derive the allocation percentages. According to OSAC's Fiscal Coordinator, administrative employees provided the information verbally to her at the beginning of the year on how they would allocate their time between the FFEL and non-FFEL program activities during the year. The Fiscal Coordinator did not retain documentation of the information provided. The official job descriptions did not contain information that could be used to develop a quantitative measure.

Because OSAC could not provide documentation showing its calculation of the percentages and used allocation bases that did not meet the requirements of OMB Circular A-87, we were unable to determine whether the percentages in OSAC's cost allocation plans provided an equitable distribution of general administrative salary costs to the FFEL program. During fiscal years 1999, 2000, and 2001, OSAC charged about $1,979,407 of unsupported general administrative salary costs to the FFEL program. (The amount is comprised of $524,580 for fiscal year 1999, $705,803 for fiscal year 2000, and $749,024 for fiscal year 2001).

<u>Administrative services and supplies costs</u>

Cost allocation plan for fiscal year 1999. The plan allocated administrative services and supplies costs by the full-time equivalents who worked 100 percent for the FFEL or a non-FFEL program. We concluded that this base provided an equitable distribution of the costs.

Cost allocation plans for fiscal years 2000, 2001, and 2002. For administrative services and supplies costs, the plans state that the allocation percentages were determined by management analysis. The allocation percentages actually reflected the proportion of the agency's biennium state budget not funded by State general funds.

Even though OSAC did not use an acceptable base in its cost allocation plans for administrative services and supplies, the allocation percentages in the plans for fiscal year 2000 and 2001 appear reasonable. The percentages were not significantly different from the percentages based on full-time equivalents that worked 100 percent on the FFEL or a non-FFEL program. For fiscal year 2002, the percentages in the cost allocation plan differed significantly from the percentage of full-time equivalents.

OSAC Did Not Consistently Apply Percentages Stated in Its Cost Allocation Plan

According to the OSAC's Fiscal Coordinator, the allocation percentages specified in the cost allocation plan for general administrative employee salaries are preset in the payroll system at the beginning of each fiscal year. Our analysis of salary charges to the Operating Fund for fiscal years 1999, 2000, and 2001 found that the percentages of salary costs charged to the FFEL program differed from the percentages stated in the cost allocation plans. Generally, the percentages used were higher than the percentages in the cost allocation plans. We also found that the cost allocation plans did not contain allocation percentages for all general administrative positions.

General Administrative Employees					
Fiscal Year	Total	Percentage Used Differed From Percentage in Plan	Position Not Listed in the Plan	Total Employees With Salary Allocations Not Supported By the Plan	Percent of Employees
1999	15	4[a]	–	4	27%
2000	23	3[b]	2	5	22%
2001	22	5[c]	6	11	50%

[a] For the 3 employees, the percentages used were 10 and 12 percentages higher than those in the plan. For the other employee, the percentage used was 7 percent lower.
[b] The percentages used were 25, 15, and 11 percentages higher than those in the plan.
[c] For the 3 employees, the percentages used were 80, 10, and 6 percentages higher than those in the plan. For the other 2 employees, the percentages used were 4 and 10 percent lower.

As shown in the above table, salaries costs charged to the FFEL program were not supported by OSAC's cost allocation plan for 22 to 50 percent of the general administrative staff during fiscal years 1999 to 2001.

OSAC Did Not Provide Periodic Certifications for Employees Who Worked Solely on the FFEL Program

OSAC's Loan Processing Division, Default Prevention & Claims Division, and Collections Division work exclusively in the FFEL program. OMB Circular A-87 requires certifications, at least semi-annually, for employees who work only for a Federal program. Attachment B, 11.h(3) states—

> Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

During fiscal years 1999, 2000, and 2001, OSAC did not require employees who worked 100 percent on the FFEL program to complete certifications. According to OSAC's Executive Director, the certification requirement was overlooked for a period of time due to staff turnover and workloads. He informed us that OSAC would reinstate a semi-annual certification requirement during fiscal year 2002. Even though OSAC did not have the required certifications, we concluded, based on interviews with long-term employees, payroll documentation, and OSAC's organizational structure, that salary costs charged to the FFEL program were appropriate for staff in the Loan Processing, Default Prevention & Claims, and Collections Divisions.

OSAC Did Not Ensure that Charges to the Operating Fund Were Allocable to the FFEL Program and Adequately Documented

Permitted uses of the Operating Fund during periods that the fund contains funds transferred from the Federal Fund are listed in 34 C.F.R. § 682.410(a)(2). Paragraph (ii) of this section lists—

> Costs that are reasonable . . . and that are ordinary and necessary for the agency to fulfill its responsibilities under the HEA . . . Those costs must be—
> (A) Allocable to the FFEL Program . . .
> (E) Documented in accordance with applicable legal and accounting standards . . . .

OMB Circular A-87 Attachment A, Paragraph C.1, contains similar provision on the allowability of costs.

During our review of Operating Fund expenditures for fiscal years 1999 and 2000, we identified the following transactions that did not meet these provisions.[7]

- Not allocable to FEEL program. OSAC charged $192 for coffee provided at a private awards meeting. According to the Fiscal Coordinator, the amount was erroneously charged to the Operating Fund due to a coding error.
- Not adequately documented. OSAC lacked adequate documentation for six reviewed transactions totaling $6,221 in charges to the Operating Fund. OSAC did not provide any documentation for two transactions and only a staff email message for another. For three transactions, OSAC did not provide invoices or shipping receipts for charges on credit card statements.

OSAC needs to have sufficient management controls to ensure that charges to the Operating Fund meet Federal requirements.

Recommendations

We recommend that the Chief Operating Officer for Federal Student Aid require OSAC to—

3.1 Develop a cost allocation plan for fiscal year 2002 that is consistent with requirements of OMB Circular A-87, submit the plan for the Department's review and approval, and make any needed adjustments for costs allocated to the Operating Fund for the fiscal year. For the review of the cost allocation plan, Federal Student Aid, Financial Partners Channel should consider soliciting assistance from Financial Improvement and Post Audit Operations in ED's Office of the Chief Financial Officer.

3.2 Either develop cost allocation plans for fiscal years 1999, 2000, and 2001 that are

[7] These transactions were identified during our review of 181 transactions that were judgmentally selected from the FFEL Program Account and Operating Fund transactions for fiscal years 1999 and 2000.

consistent with requirements of OMB Circular A-87 and make any needed adjustments for costs allocated to the appropriate fund for those fiscal years or return $1,979,407 to the appropriate fund.

3.3. Provide confirming documentation that OSAC implemented a written policy for preparing semi-annual certification and that certifications were prepared for the most recent period.

3.4. Evaluate its policies and procedures to identify and implement steps that will provide increased assurance that future expenditures charged to the Operating Fund meet Federal regulations and OMB Circular A-87 requirements, including assurances that OSAC staff responsible for approving and coding transactions are knowledgeable of applicable Federal regulations and OMB Circular A-87 requirements.

3.5. Either provide appropriate documentation for the unsupported expenditures or return $6,221 to the Operating Fund.

3.6. Return the $192 that was used for coffee at the private awards meeting to the Operating Fund.

OSAC Comments

OSAC generally concurred with the finding and recommendations. In its response to the draft report, OSAC described the corrective actions taken and provided a copy of its revised cost allocation plan effective July 1, 2001. OSAC stated that it surveyed current employees whose positions were partially funded by the FFEL Program and concluded that, in each situation, the survey results were consistent with the percentages identified in past allocation plans. OSAC identified $61,357 to be returned to the Operating Fund to correct over charges for the past three fiscal years that resulted from the inconsistent use of percentages stated in its cost allocation plans. OSAC stated that employees who were working solely on the FFEL Program completed certifications in September 2001 and March 2002. OSAC agreed to return the $192 used for coffee at the private awards meeting to the Operating Fund and provide the Department with documentation for the $6,221 of unsupported expenditures.

OIG Response

As noted in our recommendation, we suggest that the Federal Student Aid, Financial Partners Channel obtain assistance from Financial Improvement and Post Audit Operations when reviewing OSAC's revised cost allocation plan effective July 1, 2001, employee survey, and support for the amount to be returned to the Operating Fund to correct past years' allocations.

In the draft report, Recommendation 3.6 included $1,029 that OSAC charged to the Operating Fund for polo shirts provided to employees of the Loan Processing Division. OSAC provided an acceptable justification for the expenditure. Thus, we eliminated the $1,029 expenditure from the finding and recommendation. We have provided OSAC with a list of the transactions comprising the $6,221 of unsupported expenditures.

OTHER MATTERS

Interest earned on the Federal share of collections. In a program review report, dated April 16, 2001, the Financial Partners Channel for Federal Student Aid (FSA) reported that OSAC had not transferred into the Federal Fund the investment interest accrued on the Federal share of loan collections held in a holding account from October 1998 through August 2000. FSA's Dear Guaranty Agency Director Letter, dated July 18, 2000, informed guaranty agencies that their procedures must provide that the Federal share of loan collections, including investment income earned on the Federal share, is deposited into the Federal Fund no later than 30 days after receipt. FSA delayed its enforcement of the requirement to transfer the investment interest until the Department concludes on-going discussion of the requirement with the National Council of Higher Education Loan Programs. In September 2000, OSAC discontinued its use of the holding account and began depositing loan collections directly into the Federal Fund.

Late payment of usage fees. If a guaranty agency uses the Federal portion of a nonliquid asset for purposes other than the performance of its guaranty activities, the agency must promptly deposit into the Federal Fund an amount representing the net fair value of the use of the asset (usage fees). During its program review, FSA's Financial Partners Channel found that OSAC had calculated the usage fees for quarters ended September 30, 2000, and December 31, 2000, but OSAC had not deposited the fees in the Federal Fund. The regulations at 34 C.F.R. § 682.420(c)(2) state that payments to the Federal Fund for usage fees must be made no less frequently than quarterly. On June 30, 2001, OSAC deposited $46,243 in the Federal Fund for usage fees covering the period July 1, 2000, through June 30, 2001. In its response to the draft report, OSAC stated that it is current with its payment of usage fees.

Sponsorship fees for the "Mapping Your Future" program exceeded the contribution limit. The HEA, § 422(h) required that $1 billion of guaranty agency reserve funds be placed in escrow accounts over five years for deposit in the U.S. Treasury in September 2002. To comply with this requirement, FSA instructed each guaranty agency to set aside a specific amount each year in a restricted funds account. The HEA, § 422(h)(4)(B) allows a guaranty agency to use earnings from the restricted funds account for default reduction activities. In a November 1999 letter, the Department approved guarantee agencies' use of investment earnings for contributions of up to $1,500 to the "Mapping Your Future" program. OSAC's contribution for the Fiscal Year 2000 Annual Sponsorship Fees for the "Mapping Your Future" program totaled $7,500. Thus, OSAC improperly contributed $6,000 more than the allowed contribution limit. In its response to the draft report, OSAC stated that it plans to request permission from the Department to allow the excess expenditure.

BACKGROUND

The 1998 amendments to the HEA of 1965, enacted on October 7, 1998, required each guaranty agency to establish a Federal Fund and an Operating Fund. The final date for establishing these funds was December 6, 1998. The guaranty agencies were to transfer all funds, securities and other liquid assets of the guaranty agency's FFEL program reserve fund to the Federal Fund, which is the property of the Federal Government. The HEA required guaranty agencies to deposit revenue from specific sources into the Federal Fund and defined the uses of Federal Fund assets. The HEA also specified the deposits to be made into the Operating Fund and the general uses of Operating Fund assets. Except for funds transferred from the Federal Fund, the Operating Fund is the property of the guaranty agency. If the Operating Fund contains funds transferred from the Federal Fund, the Operating Fund assets may be used only as permitted by the regulations.

OSAC, formerly called the Oregon State Scholarship Commission, is the state agency responsible for administering student financial aid in the State of Oregon. OSAC became responsible for administering the FFEL program in 1967. OSAC contracts with USA Group or FFEL program related computer services, except for loan collections, which is supported by in-house staff. OSAC also administers a variety of Federal, State, and privately funded student financial aid programs for the benefit of Oregonians attending institutions of postsecondary education. Commissioners are members of the public appointed by the Governor. Its main office is located in Eugene, Oregon.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the audit was to determine whether OSAC complied with the HEA and regulations governing the establishment and operations of the Federal and Operating Funds. Specifically, we evaluated the (1) initial establishment of the two funds, (2) sources and uses of the funds, and (3) ownership of nonliquid assets and usage fees paid.

We gained an understanding of applicable HEA provisions and Federal regulations; the State of Oregon accounting system, reports, and records; and OSAC's management controls. We reviewed OSAC's audited financial statements and single audits covering the periods July 1, 1997, through June 30, 2000. We reviewed the working papers prepared by the independent public accountant (IPA) that conducted the single audit for fiscal year 2000. We reviewed the FSA-Financial Partners Channel report issued on April 16, 2001, covering its program review conducted at OSAC on January 22-25, 2001. We interviewed various OSAC personnel and

FSA-Financial Partners Channel officials. We reviewed relevant FSA Dear Colleague Letters, FSA Dear Guaranty Agency Director Letters, and correspondence between OSAC and FSA.

To evaluate compliance with the HEA and regulations governing the establishment of the Federal and Operating Funds, we reviewed OSAC's procedures used to establish the fund balances and supporting documentation. We confirmed OSAC's General Ledger Trail Balance at September 30, 1998. We reviewed OSACs audited financial statements covering the periods July 1, 1966, through December 31, 1976, and July 1, 1981, through June 30, 1984. We reviewed the IPA's working papers supporting the Independent Accountant's Report on Applying Agreed-Upon Procedures.[8]

We reviewed transactions recorded in the FFEL Program Account from July 1, 1998, to September 30, 1998, and traced 35 transactions (judgmentally selected) to supporting documentation. To evaluate the OSAC's management controls covering sources and uses of the Federal and Operating Funds, we reviewed transactions recorded in the FFEL Program Account, Federal Fund and Operating Fund from October 1, 1998, to June 30, 2000, and traced 146 transactions (judgmentally selected) to supporting documentation. The auditors selected transactions related to establishment of the Federal and Operating Fund, transactions described as miscellaneous or had other descriptions that were not readily identifiable, and travel expenditures with higher dollar amounts.

We also reviewed supporting documentation related to the claims, default aversion fee, and collection processes for 25 borrowers. The borrowers were judgmentally selected from OSAC's default aversion fee reports dated May 31, 2000, and April 30, 2001. The auditors selected transactions that represented a variety of purchase dates, loan amounts, and lenders and loan servicers.

We reviewed OSAC's cost allocation plans for fiscal years 1999, 2000, 2001, and 2002. We analyzed expenditure transactions for general administrative salary costs recorded in the Operating Fund for fiscal years 1999, 2000, and 2001. There is no assurance that the judgmental samples were representative of the entire populations and should not be used for projections.

To review the ownership of nonliquid assets and usage fees paid, we reviewed OSAC's schedule of nonliquid assets and the audited financial statements to identify unlisted assets. We evaluated the reasonableness and accuracy of usage fees charges and traced usage fees payments to the Federal Fund.

To achieve our audit objective, we relied on standard reports from USA Group's loan processing system and OSAC's loan collection system. We also used standard reports and electronic data from the State of Oregon's Statewide Financial Management System. Our assessment of the reliability of the data was limited to confirming the data to supporting documentation for the transactions reviewed in our judgmental samples and obtaining assurances in OSAC's management representation letter of the propriety of the data provided. Based on these tests and assurances, we concluded that the data are sufficiently reliable to be used in meeting our objective.

[8] The working papers showed that the audit work was conducted in January 2000. (The report was not dated.)

We conducted our fieldwork from July 16, 2001, through September 19, 2001. We performed the majority of our fieldwork at OSAC's location in Eugene, Oregon. We performed our audit in accordance with government auditing standards appropriate to the scope of review described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we made an assessment of OSAC's management control structure, policies, procedures, and practices applicable to OSAC's administration of the FFEL program. The purpose of our assessment was to assess the level of control risk, that is, the risk that material errors, irregularities, or illegal acts may occur. We performed the control risk assessment to assist us in determining the nature, extent, and timing of the substantive tests needed to accomplish our audit objectives.

To make our assessment, we identified significant controls and classified them into the following categories:

- Establishment of the Federal and Operating Funds
- Sources and Uses of the Federal and Operating Funds
- Ownership of fixed assets and usage fees

Due to inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the control structure. However, we identified weaknesses in OSAC's procedures used to establish the funds and controls over the sources and uses of the funds. We describe the weaknesses in the AUDIT RESULTS and the OTHER MATTERS sections of the report.

ATTACHMENT

OSAC Comments on the Draft Report

Oregon
John A. Kitzhaber, M.D., Governor

Student Assistance Commission
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March 5, 2002

Office of Inspector General
US Department of Education
501 I. St. Suite 9-200
Sacramento, CA 95814

RE: Draft OIG Audit Report of OSAC dated February 2002

The Oregon Student Assistance Commission (OSAC) has received the draft audit report dated February 2002 from OIG and is providing this document as our response to that report. The draft audit identified three potential findings:

1. That OSAC improperly excluded about $1.6 million when it established its Federal Fund,
2. That OSAC improperly deposited approximately $160,000 of supplemental preclaims assistance payments into the Operating Fund, and
3. That OSAC did not comply with federal regulations relating specifically to cost allocations and OMB Circular A-87.

The draft report also identifies three issues considered to be "other matters". These are:

1. Investment interest income earned on the Federal share of collections,
2. Late payment of usage fees, and
3. Overpayment of sponsorship fees.

The Oregon Student Assistance Commission considers each of these draft findings and other matters to be serious issues. It is the intent of the Commission to immediately take corrective action, where appropriate, to ensure compliance. However, the Oregon Student Assistance Commission does not agree with findings #1 and #3.

<u>Finding #1 – OSAC improperly excluded about $1.6 million when it established its Federal Fund.</u> OSAC believes it accurately and appropriately established both the Agency Operating and Federal Fund. We disagree with this finding.

The issue that OIG has identified rests primarily around continuous appropriations. We don't believe there is disagreement the Oregon Legislature appropriated monies to OSAC for what is now called FFELP.

When OSAC established these two funds, staff spent extensive amounts of time and research in documenting that there were State moneys in the Student Loan Fund and that they were earning interest. In addition, we anticipated that the identification and calculation of State moneys in the Student Loan Fund might be questioned by the Department of Education. At the very least, we knew the establishment would fall under review at some point. Because of the unique nature between our State Legislature, how money is appropriated to agencies, and how those monies are then handled by our Oregon Treasury, OSAC worked with various entities when it established the two funds. We involved our State Treasury, our Audits Division, as well as an independent CPA firm.

When OSAC established the Agency Operating Fund and the Federal Fund, here is the process we followed:

1. We asked if the State of Oregon ever provided money to OSAC for the purposes of administering our guarantee program. Our analysis determined the answer to be "yes" and that the moneys were continuously appropriated.
2. Once determined, we contacted the State of Oregon Audits Division and the State of Oregon Treasury. To accurately fund the two accounts, OSAC needed to know how the Audits and Treasury Divisions would treat continuous appropriations. We also needed to ensure that monies reported on our federal reports were true and accurate. At both Audits and Treasury, we were informed that continuous appropriations immediately go to the designated agency. Monies continuously appropriated are held at Treasury, but are tracked individually with both principle and interest accruing to the designated FFELP account.
3. We then verified that balances on federal reporting (our 1130 reports) were accurate and real. When the State of Oregon funds a program, it does so with real money. The fact it was recorded on federal reports is proof the money appropriated to OSAC for FFELP was real. There are also references in State of Oregon Budget Bills that clearly identified the continuous appropriations.
4. To verify all of our calculations, a certified public accountant was brought in to review our findings. The CPA firm confirmed and substantiated each calculation, and both determined and tested that, based on interest earnings, the Student Loan Fund contained State moneys.

Additionally, OSAC was the recipient of two US Department of Education audits between the time we established the two funds and the time OIG audited our agency that specifically looked at our establishment of the Agency Operating Fund. In neither audit was the establishment of the two funds questioned.

OSAC is having difficulty understanding OIG's position relative to the establishment of the two funds given the process we went through to determine the beginning fund balances, the documentation we have already provided, and the two audits conducted by the U.S. Department of Education. To be blunt, finding number 1 appears to discount the Oregon Legislature, the Oregon Audits Division, the Oregon Treasury, an independent CPA firm, the Oregon Student Assistance Commission, and the U.S. Department of Education.

It's the intent of the Oregon Student Assistance Commission to oppose this finding. Moving forward, we will be providing OIG with a State of Oregon Attorney General opinion regarding the establishment of the funds. We will also be working with the CPA firm to provide you with additional support documentation. Finally, we'll ask both the State Treasury and Audits divisions to provide you with more detailed explanations of continuous appropriations. We hope to provide this information to you not later than April 15, 2002.

<u>Finding #2 – OSAC improperly deposited $160,000 of Supplemental Preclaims Assistance in the Operating Fund.</u>
OSAC agrees with this finding. This error occurred during a time period when guarantee agencies were moving from supplemental preclaims assistance to default aversion fees resulting from reauthorization. Once the error was recognized, OSAC began handling those transactions correctly.

Although OSAC agrees with this finding and is willing to transfer the money to the Federal Fund, OSAC is requesting that OIG remove finding #1 before the physical transfer is made.

<u>Finding #3 – OSAC did not comply with federal regulations and OMB Circular A-87 for costs charged to the Operating Fund.</u>

While OSAC doesn't contest this finding, we want to point out that this finding is more about adherence (or lack thereof) to our own cost allocation plan. OSAC has utilized cost allocation for years. These plans have passed audit at both the federal and state level. During this OIG audit, it was discovered that OSAC was not always applying the percentages shown in our cost allocation plan. Nor had OSAC completed periodic certifications for staff working solely in FFELP. Finally, there was a lack of documentation to explain why certain expenses were charged to the FFEL program.

Our interpretation of Finding #3 doesn't change the issue, but OSAC believes it important to understand what happened. Additionally, at no time was it the intent of OSAC to not comply with Circular A-87 or to follow our own cost allocation plan. Rather, there were a series of events and changes at our Commission that caused OSAC to be in the unenviable position of not following our own plan.

Between July of 1999 and June of 2000, OSAC had three different Executive Directors and there were changes in the line of report for our accounting staff. During this time period, there was confusion as to whom our accounting staff reported to. There were also workload issues. Unfortunately, the combination of these factors caused lapses in our cost allocation certifications, monitoring of the splits, documentation, and management controls.

To ensure this type of thing doesn't happen again, OSAC has taken the following steps:

- Hired additional accounting staff - including a fiscal coordinator.
- Solidified the reporting structure for accounting staff. The Deputy Director as of November 2001 is the Chief Financial Officer and accounting now reports to this position.
- Reviewed our current cost allocation plan to ensure compliance with Circular A-87.
- Implemented management controls and certifications to support the cost allocation plan.
- Implemented an internal certification form (copy of which is enclosed) to ensure compliance with our own plan.
- Separated functions so that changes to payroll allocations must be approved and entered by different employees.

To correct any issues from the past three fiscal years, OSAC has gone back and rebuilt our plan. Where possible, direct verifications have been used. For employees no longer with our agency, we are using A-87 acceptable calculations to determine reasonable costs. This methodology is also used for undocumented FFELP related expenses.

OSAC is currently conducting surveys to ensure proper tracking. We have also done initial calculations to determine the amount of money OSAC needs to return to the Federal Fund. These surveys, a double-check of our figures, and our new cost allocation plan will be completed by April 15th, 2002. At that time, we will forward our plan to the Department for review and approval. OSAC is requesting that OIG remove finding #1 before payment is made, however.

Under the "other matters" issues, OSAC has or will take steps to immediately correct these issues. As OIG is undoubtedly aware, SFA has delayed enforcement of collecting the investment interest income that would have been earned on the Federal share until discussions with NCHELP have concluded. To ensure OSAC meets deposit timelines, OSAC began in September of 2000 the practice of depositing loan collections directly into the Federal Fund (also approved by the Department).

As OIG is also aware, there were extensive debates over the calculation for usage fees. When that debate was concluded, OSAC made the appropriate transfers. As of the date of this response, OSAC is current with its payment of usage fees.

Finally, OSAC did exceed contribution limits for Mapping Your Future. OSAC plans to request permission from the Department to allow this over-expenditure of $6,000. Since it would have cost OSAC more money to develop and support its own web-based exit counseling system (100% of which would have been charged to FFELP), there's logic that supports this overpayment.

In conclusion, OSAC would like to reiterate its disagreement with Finding #1. OSAC believes it took every reasonable step to accurately establish the agency's two funds. Oregon State audits, federal reports to the Department of Education, the Oregon Treasury, and an independent certified public accounting firm each support the methodology and action OSAC took. Two U.S. Department of Education audits failed to identify the establishment of our funds as an issue or finding. Only now is there question – and frankly, OSAC is having a hard time understanding the apparent disregard for the groundwork and research we've already conducted. We believe that the additional information provided in this response and information soon to follow will resolve this issue.

Respectfully,

Jeff Svejcar

Jeff Svejcar
Executive Director
Oregon Student Assistance Commission

cc: Patty Williams
Attachment: 1

DRAFT

OSAC COST ALLOCATION CERTIFICATIONS
OCTOBER 2001 - SEPTEMBER 2002

Certification	Due Date	Completion Date	Comments
100% FFELP-1st 6 mos.	03/01/02	02/27/02	Change allocation for 2 employees
100% FFELP-2nd 6 mos.	09/30/02	08/24/02	change allocation for 1 employee
Split Allocations	09/30/02	09/15/02	change allocation for 3 employees
Review of Plan	09/30/02	09/30/02	reviewed by Dep Dir and HR Dir.

Allocation Changes	Changed From	Changed To	Approved By	Changed In Payroll	Changed In Plan
name	100%	75%	(signature)	02/28/02	02/28/02
name	100%	80%	(signature)	02/28/02	02/28/02
name	100%	85%	(signature)	08/28/02	08/28/02
name	85%	95%	(signature)	09/15/02	09/15/02
name	60%	85%	(signature)	09/15/02	09/15/02
name	0%	25%	(signature)	09/15/02	09/15/02

Updated: (insert date)

This draft for sample illustration purposes. All dates and comments are fictional.

Oregon
John A. Kitzhaber, M.D., Governor

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March 26, 2002

Office of Inspector General
US Department of Education
501 I. St. Suite 9-200
Sacramento, CA 95814

RE: Follow up information from draft OIG OSAC audit

The Oregon Student Assistance Commission, in accordance with its letter to you dated March 5, 2002, wishes to provide you with further documentation to support our position that OSAC did properly establish its Agency Operating Fund.

Enclosed please find two letters addressed to the OSAC. The first letter is from our CPA firm, Merina and Company. Merina's letter clearly addresses the issue of bias identified during our conference call of February 19, 2002. As described in the letter, bias cannot be part of an agreed-upon procedures audit. Additionally, the interest credited to the student loan account clearly proves that there were monies continuously appropriated – otherwise no interest could have accrued.

The second letter is from the Oregon Department of Treasury. Once again, our Treasury Department confirms that money appropriated to a specific program/fund will earn interest to that program/fund. Based upon Oregon Statute, interest could not accrue to our 'state's general fund' once designated for another program.

In combination, these two letters further reinforce our position that we accurately established our Agency Operating Fund. The CPA firm of Merina and Company has proven that Student Loan Fund monies did exist and Treasury has reported that interest accrued to the proper account.

OSAC continues to support the action we took to establish the Agency Operating and Federal Funds. Upon receipt, we will be forwarding to you additional statements from our Budget and Management Division as well as our Attorney General which will further support our actions - - although we believe the enclosed documentation should suffice to satisfy your concerns.

Respectfully,

Jeff Svejcar

Jeff Svejcar
Executive Director

Enclosures
cc: Patty Williams, Commission Chair

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

PARTNERS
JOHN W. MERINA, CPA • KAMALA K. AUSTIN, CPA

March 13, 2002

Bruce Marks
Deputy Director
Oregon Student Assistance Commission
1500 Valley River Dr. Suite 100
Eugene, OR 97401

We would like take this opportunity to explain the nature of an engagement to perform an agreed-upon procedures engagement and to respond to the suggestion that our work in performing such an engagement for the Oregon Student Assistance Commission may have contained a bias towards the Commission.

Certified Public Accountants perform three types of engagements under professional attestation standards. These are 1) examination, 2) review, and 3) agreed-upon procedures. In an examination, the CPA states an opinion. In a review, the CPA provides a moderate level of assurance and no opinion is rendered. In the third type of engagement, the agreed-upon procedures engagement, the CPA performs procedures and reports the findings. Again, no opinion is rendered.

Professional standards for agreed-upon procedures engagements are promulgated in the *Statement on Standards for Attestation Engagements*. These standards clearly state that user, in this case the Oregon Student Assistance Commission, takes responsibility for the sufficiency of the procedures for their purpose. This is established in the engagement letter and reiterated in the report. The task of the CPA is to perform the procedures and report the results (findings). The professional standards require that the findings are not to include an opinion.

Our 1999 engagement to perform agreed-upon procedures for the Oregon Student Assistance Commission strictly adhered to these professional standards. The performance of one particular procedure in the engagement was challenging in that the nature of the financial statements we worked from did not contain the information we needed in a straight forward, explicit manner. Rather, we had to design and perform a predictive test to determine if the amount of interest credited to the account of the Commission established the fact that a segregation of funds was present even if they were not separately stated.

5499 AMY STREET • WEST LINN, OREGON 97068 • PHONE: (503) 723-0300 • FAX: (503) 723-9946 • WWW.MERINACPAS.COM

The result of this test was that the amount of interest credited to the Oregon Student Assistance Commission would not have been possible if the continuously appropriated state funds had not been present.

The performance of a given set of procedures and the reporting of the results of those procedures does not approach the level of reporting that requires an opinion. In deed, a primary feature of an agreed-upon engagement is to provide a vehicle for the CPA to offer a report that does not contain an opinion, but rather, a report on findings of fact or reasonably inferable, supportable facts.

Our workpapers in the engagement under discussion clearly demonstrated we had sufficient evidence to report the finding discussed above. Furthermore, findings of supportable facts, such as clear, albeit inferential, evidence that other funds, even if not segregated, were present, rises above any suggestion of bias.

Sincerely

John Merina, CPA
Managing Partner
Merina & Company, LLP
Certified Public Accountants and Consultants

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STATE TREASURER

FINANCE DIVISION
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OREGON STATE TREASURY

REC'D MAR 0 7 2002

March 4, 2002

Bruce Marks
Deputy Director
Oregon Student Assistance Commission
1500 Valley River Drive, Suite 100
Eugene, OR 97401

Dear Bruce:

I am writing in response to your email dated March 1, 2002, in which you inquired about the interest earned on two Oregon Student Assistance Commission (OSAC) accounts, specifically 5750000441 Student Loan Guarantee Fund and 5750000837 Federal Student Loan Reserve Fund.

Agency accounts are generally opened at Treasury according to Oregon Revised Statutes, such as OSAC's account #5750000441. This account was established many years ago pursuant to ORS 348.570 (2) that specifically instructs Treasury to establish "a fund, separate and distinct from the General Fund to be known as the Student Loan Guarantee Fund." It also states "interest earned by the fund shall be credited to the fund." The account was set-up in this manner, and it continues to earn interest to itself today.

OSAC's account #5750000837 was established, at the request of OSAC in November of 1998, according to federal legislation concerning Reauthorization of the Higher Education Act of 1965. At that time, the new account #5750000837 named "Federal Student Loan Reserve Fund" was opened. This account also was set-up to earn interest to itself at that time and remains so today.

Unfortunately, our records retention on agency statements is only four years; so Treasury is not able to provide a lot of historical data. However, I hope the above information is helpful.

If you need anything further or have any questions, please feel free to contact me at (503) 378-2885 or email judy.a.rutkowski@state.or.us.

Thank you.

Sincerely,

Judy A. Rutkowski

Judy A. Rutkowski
Banking Services Manager

Oregon
John A. Kitzhaber, M.D., Governor

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April 9, 2002

Office of Inspector General
US Department of Education
501 I. St. Suite 9-200
Sacramento, CA 95814

RE: Response to Draft Finding No. 3 – OSAC did not comply with Federal Regulations and OMB Circular A-87 for costs charged to the operating fund.

This correspondence is intended to respond to the issues raised in the ED-OIG Draft Audit Report of the Oregon Student Assistance Commission Finding number 3. While no business or entity knowingly makes errors (hopefully), circumstances caused OSAC to fall short of completely adhering to the requirements of OMB Circular A-87. It was and remains the intent of OSAC to fully comply with Circular A-87. This document lays out the actions we have taken to bring OSAC back into full compliance and to ensure we remain in compliance in future years.

The first issue raised under Finding number 3 is the lack of documentation to support the calculation of percentages for administrative positions. We agree with the OIG audit in that personal survey interviews were obviously completed with individual staff, but we have been unable to locate the supporting documentation. The primary employee responsible for the survey information no longer works for OSAC.

To rectify this situation, OSAC conducted current surveys of all employees funded at least partially from the FFELP. OSAC compared the results of this survey with the percentages used in past allocation plans for those position where documentation was missing. We next asked those employees if specific job duties were comparable with 1999, 2000, and 2001. For employees no longer with OSAC, we spoke with the individual now in that position. In each situation, results were consistent with the percentages assigned to those employees identified in past allocation plans. This documentation is kept in a central file and is available for review.

Additionally, OSAC now has each multi-funded employee record hours worked by fund type. This survey information is recorded not less than one quarter each year and is also retained in a central file for documentation purposes. The first month of survey time tracking was completed March 31. Initial review demonstrates that percentages of fund types are well within limits and are actually fairly conservative.

The second cost allocation issue involves using Circular A-87 acceptable methods to determine costs for services and supplies not directly associated with a program.
These costs are now allocated based upon documented results of allocation surveys and allocation timesheets.

The audit determined that OSAC did not consistently apply percentages stated in its cost allocation plan. The plan also failed to identify all positions. To correct this situation, OSAC has done several things:

- Hired additional accounting staff - including a fiscal coordinator.
- Changed reporting structure. The Deputy Director as of November 2001 is the Chief Financial Officer and accounting now reports to this position.
- Reviewed our current cost allocation plan to ensure compliance with Circular A-87.
- Implemented management controls and certifications to support the cost allocation plan.
- Implemented an internal certification form to ensure compliance with our own plan.
- Separated functions so that changes to payroll allocations must be approved and entered by different employees.

For positions not identified in our plan, OSAC has added them to the plan. For those employees still working at OSAC, we've used existing surveys and direct conversations to evaluate the appropriate allocations. Included in this material is a worksheet that adds these 5 positions to our cost allocation plan and calculates the correct amount of reimbursement. The project coordinator position no longer exists.

The audit found that OSAC was not completing required periodic certifications for employees working solely on the FFEL Program. OSAC has reinstated the required certifications. One was completed in September of 2001 and the most recent in March of 2002. Documentation is centrally retained and available for review. Periodic certifications are also part of our new, internal management control form. This ensures that OSAC will complete the certifications in a timely manner.

Finally, the audit concluded that OSAC did not ensure that charges to the Operating Fund were necessary, allocable to the FFEL Program, and adequately documented. OSAC disagrees with the $1,029 charged for polo shirts to employees of the Loan Processing Division as being unnecessary. In 1999, OSAC implemented many changes in support of the FFEL program. Amongst those changes were on-site school training, entrance and exit counseling, and participation in various school and lender events. OSAC received numerous complaints from schools and trading partners that OSAC staff was not identifiable to students. OSAC felt it necessary to identify employees working with schools and students for important and required functions such as entrance and exit counseling.

The $192 for coffee at a private awards meeting was a coding error. OSAC never had any intent to have FFEL pay for this and we appreciate OIG catching this mistake.

OIG references $6,221 in charges to the Operating Fund. During the audit, OSAC apparently did not provide adequate documentation for these transactions. If OIG will provide specifics for the transactions, OSAC will provide the receipts, shipping invoices, etc. to support the charges.

Recommendations from OIG audit
OSAC has developed a cost allocation plan that is consistent with the requirements of Circular A-87. It is included with this document for review. OSAC has worked closely with our CPA firm to both understand and comply with the Circular. We have also explored a variety of acceptable methods to ensure compliance – such as statistical sampling. We are also including a spreadsheet that identifies percentages used, amounts paid, and the amount that should have been paid for fiscal years 1999 through 2002. Upon acceptance of our plan, OSAC is prepared to reimburse the Agency Operating Fund for the amount identified - $61,357.00.

OSAC does require semi-annual certifications of the FFEL program. Copies of the policy and documentation are included with this document. Additionally, OSAC believes the steps identified in this document, along with our new, internal certification form will ensure compliance with Circular A-87.

OSAC plans to return the $192 to the Operating fund upon approval of our new plan and is awaiting feedback from OIG regarding the $6,221 and $1,029 amounts in question.

Sincerely,

Jeff Svejcar

Jeff Svejcar
Executive Director

Enclosures
cc: Patty Williams

OSAC Cost allocation splits identified by OIG

1999			total	amount FFELP	amount FFELP	
	paid at %	s/b paid %	salary recvd	should be charged	was charged	difference
Ex. Dir	100.00%	89.98%	6238	$5,613	$6,238	-$625
recept - footnote 1	100.00%	87.56%	28298	$24,778	$28,298	-$3,520
recept - footnote 1	100.00%	87.56%	28298	$24,778	$28,298	-$3,520
Ex. Supp. - footnote 1	88.10%	94.93%	41171	$39,084	$36,272	$2,812
					subtotal	-$4,854
2000			total	amount FFELP	amount FFELP	
	paid at %	s/b paid %	salary recvd	should be charged	was charged	difference
Ex. Suppt	100.00%	85.00%	38843	$33,017	$38,843	-$5,826
Spec. Svs. Rep	100.00%	75.00%	51465	$38,599	$51,465	-$12,866
Off. Spec.	90.00%	79.00%	15662	$12,373	$14,096	-$1,723
					subtotal	-$20,416
not included:* PIO	90.00%	90.00%	25860	25860	25860	$0
2001			total	amount FFELP	amount FFELP	
	paid at %	s/b paid %	salary recvd	should be charged	was charged	difference
Exec. Suppt	100.00%	90.00%	41946	$37,751	$41,946	-$4,195
ISS	100.00%	20.00%	39010	$7,802	$39,010	-$31,208
IT Div Dir	90.00%	84.00%	63450	$53,298	$57,105	-$3,807
Exec. Dir	81.18%	85.00%	81717	$69,459	$66,338	$3,122
					subtotal	-$36,088
not included:*						
school liason	100.00%	100.00%	n/a	n/a	n/a	0
office spec	90.00%	90.00%	28145	$25,331	$25,331	$0
office spec	90.00%	90.00%	30362	$27,326	$27,326	$0
proj. coord	75.00%	75.00%	28820	$21,615	$21,615	$0

Total OSAC liability based upon overpayment of FFELP allocation: -$61,357

Amount to be returned to the AOF: $61,357

footnote 1 — the only records available indicate total salary (including benefits) for the 99-01 biennium. OSAC divided the total in half for the calendar year for the pupose of this calculation

COST ALLOCATION PLAN

Oregon State Scholarship Commission
Effective July 1, 2001

This cost allocation plan is for the purpose of allocating costs to comply with OMB Circular A-87. Whenever possible, costs are charged directly to the program which benefits. Allocation guidelines are for costs shared by federal and non-federal programs administered by the Commission. The Federal Family Educational Loan Program (FFELP) is the only federal program that has funds other than special payments. Non-FFEL programs are often un-funded or under-funded and costs are borne by the state general fund.

<u>Personal Services</u>

Program Employees

Employees in the Guarantee Services & Default Prevention Division and the Collections & Claims Division work exclusively in the FFELP program, which is entirely funding with Other Funds.

Employees in the Grants Division are assigned to work with state programs, which are usually funded through General Funds, and private award programs funded through Other Funds donations. Salary costs are allocated based on the percentage of time spent on state and private award activities.

Administrative Employees

Based on surveys and timesheet tracking from Administration, Information Services and Policy and Research Divisions, we have allocated program costs between General Fund and Other Funds activities (See Appendix A) for the period of July 1, 2001 to June 30, 2002.

Commissioners receive per diem and travel expenses for their attendance at commission meetings and other business functions. Charges are allocated 89.00% to Other Funds and 11.00% to General Funds, in keeping with the administrative cost allocation. Total commissioner payroll is under $2,000 per year.

Fringe Benefits
Fringe benefits and Other Personnel Expenses (OPE) are allocated with salaries. In accordance with A-87, attachment B item 11g, unemployment reimbursement is charged according to the Full Time Equivalency (FTE) split in Appendix B.

Travel
In-State Travel: Prior approval by a Division Director, the Personnel Manager, the Deputy Director, or the Executive Director is required for reimbursement. Staff and managers are responsible for compliance with the State of Oregon's travel rules as documented in chapter 6 of the Oregon Accounting Manual. All requests for reimbursement must be reviewed by the Travel Coordinator prior to payment.

Out-of-State Travel: Prior approval by a Division Director, the Personnel Manager, or the Deputy Director is required. In addition, the Executive Director is required to review and approve out-of-state travel requests. An Out-of-State Travel Request Form must be prepared and signed by all parties prior to travel arrangements and expenditure reimbursement. Staff and managers are responsible for compliance with the State of Oregon's travel rules as documented in chapter 6 of the Oregon Accounting Manual. All requests for reimbursement must be reviewed by the Travel Coordinator prior to payment.

Travel Reimbursement for program personnel is coded based on the funding source for the program they represent. Administrative personnel (or program personnel who travel as a replacement for the directory or deputy director) are reimbursement using the Administrative Division split in Appendix A. This includes NASSGAP, OASFAA, WASFAA, NASFAA and NCHELP conventions. Travel for NCHELP program related meetings is charged entirely to Other Funds. Allowable travel costs are determined by the state travel rules and payment approved by the commission's Travel Coordinator.

Office Expenses

Office Supplies
Each division/program is responsible for ordering its own supplies from Boise Cascade. General supplies for Admin, IS, Grants, and Policy/Research are paid according to Appendix A. Those for total agency use (for instance, conference room furniture) are charged by the FTE split (Appendix B).

Postage and Delivery
Postage and processing services are charged directly to each program according to invoiced cost. Administrative, Information Technology, Grants, and Policy/Research mail is charged according to Appendix A. The prepaid postage account at Garten Mail is paid monthly based on prior activity in each program or division.

Duplicating/Copying
Agency copiers (purchased or leased and maintenance/supplies) may be used by more than one division or program. In this situation, division or program managers are responsible for negotiating an equitable costing plan. Third-party duplicating services are directly charged to the program involved. General duplicating and copying for the whole agency will be charged using the FTE split (Appendix B).

Other Office Services
Other office services are direct charges when possible. Services for the entire agency are allocated by FTE (Appendix B).

<u>Publicity and Publications</u>
Publicity and Publications are charged to the program involved. Services for the entire agency are allocated by FTE (Appendix B).

<u>Dues and Subscriptions</u>
Dues and subscriptions are charged to the program involved. Services for the entire agency are allocated by FTE (Appendix B).

<u>Telecommunications</u>
Costs relating to telecommunications are charged to the Division or program originating or receiving the call. Collections Division (FFELP) is charged for the cost of the autodialer, its 800 number and directory assistance. Default Prevention & Claims Division (FFELP) is charged for the cost of its 800 number, as is the Administration Division. General equipment and maintenance costs are allocated by FTE (Appendix B). The Oregon Department of Administrative Services provides a monthly report of phone access costs and calling charges by Division.

<u>Data Processing</u>
Data processing that can be attributed to a specific program is charged to that program. General data processing supplies are allocated to the Information Technology Division split in Appendix A. Costs related to the AS400 are based on a monthly analysis of the data on the system.

<u>Employee Training</u>
The cost of employee training (including travel) is charged based on the program it serves.

<u>Employee Recruitment, Wellness, Safety</u>
Recruitment costs are charges to the program that is hiring the employee. Employee recognition costs are charged in the same fashion. General employee recognition or wellness/safety programs are allocated by FTE (Appendix B).

Professional Services

EAP

Employee Assistance Program (EAP) costs are charged by the FTE split (Appendix B).

Temporary Employee Agencies

Temporary employee costs are charges to the program in which the temporary is working.

Personal Services Contracts

Personal services contract costs are charged to the program involved. If the service is for the agency as a whole, costs are allocated by FTE (Appendix B). If the service is primarily for an administrative division and not a program, costs are allocated according to Appendix A.

Attorney General Legal Fees

Costs are charged to the program involved. General administrative matters, such as general personnel issues, are charged to the Administrative Division split in Appendix A.

State Government Service Charges

Charges for services provided by other state agencies are allocated based on FTE split (Appendix B).

Agency Program Related Services & Supplies

Costs for agency program related services and supplies are charged to the effected program.

Other Services & Supplies

Other services & supplies are charged directly to the program involved whenever possible. Services & supplies for the entire agency are split by FTE (Appendix B). Services & supplies obtained for administration are split per Appendix A.

Facilities Rent & Maintenance

Rent and general maintenance for the first floor are allocated using the FTE split (Appendix B). Rent and maintenance for the second floor office is charges to the Ford Program. Maintenance requests that are to benefit a single program are charges to that program.

Capital Equipment

Capital equipment is charged directly to the programs when appropriate. Because of the size of the purchases involved most capital equipment is for use of the entire agency. These costs are allocated according to intended use following guidelines used above for smaller purchases.

COST ALLOCATION PLAN
Oregon State Scholarship Commission
Effective July 1, 2001
APPENDIX A—General Administrative Allocation

We have chosen to further refine our payroll charges. In the past, we have had employees track the time they perceive they are spending on FFELP and Non-FFELP activities and used the resulting percentages for our allocation. As this method can sometimes be subjective, we have decided to combine this information with data from official job descriptions and allocation surveys for each employee of the Administration, Information Services and Policy/Research Divisions. We feel that the combination of these methods accurately allocates payroll costs for specific individuals.

Employee Payroll Cost Allocation

Position	Non-FFELP	FFELP
Executive Director	15%	85%
Deputy Director	15%	85%
Director, Special Services	25%	75%
Executive Support	10%	90%
Public Information Director	10%	90%
Office Assistant	10%	90%
Fiscal Coordinator	15%	85%
Accountant	10%	90%
Accountant Technician	10%	90%
Office Specialist II	10%	90%
Personnel Manager	10%	90%
Info Services Div Manager	2%	98%
Systems Analyst	20%	80%
Systems Analyst	55%	45%
Systems Analyst	21%	79%
Systems Analyst		100%
Systems Analyst	36%	64%
Data Communications Tech	21%	79%
User Support Analyst	11%	89%
Web Editor	44%	56%

Information Services dedicates a portion of their time to indirect services benefiting the entire agency. Allocation based on FTE's was used for this portion of time.

If a services or supply can be directly associated with a funding source, that source will be charged exclusively. However, many items benefit more than one program or are used by employees with split funding. In these cases, the following allocation of costs will be made based on the average percentage results of allocation surveys, allocation timesheets and management analysis:

Division	General Fund	Other Funds	PCA
Administration	11.00%	89.00%	90001
Information Systems	23.00%	77.00%	90005
Grants Division	38.00%	62.00%	90008
Policy & Research	31.80%	68.20%	90009

COST ALLOCATION PLAN
Oregon State Scholarship Commission
Effective July 1, 2001
APPENDIX B—Allocations

Allocation by FTE: PCA 90003

Costs that are associated with the whole organization are distributed by FTE. Allocation of these percentages between General Fund and Other Funds is based on the Services and Supplies allocation percentages in Appendix A. Allocations are input to the commission's accounting system on an annual basis. Percentages listed below are for the 2002 fiscal year, and cover the period of this plan.

Divisions	FTE **	% FTE	General Fund %	Other Funds %
Administration	9	9.76	1.07	8.69
Information Technology	6	6.51	1.05	5.46
Grants Administration	11	11.93	4.53	7.39
Guarantee Services & Default Prevention	29	31.45		31.45
Collections & Claims	34.96	37.91		37.91
Policy and Research	2.25	2.44	.78	1.67
	92.21	100.00	7.43	92.57

Allocation for State Gov Service Charge: PCA 90002

Costs that are associated with services provided by other state agencies for the benefit of the whole organization are distributed using this PCA. Allocation of these percentages between General Fund and Other Funds is based on FTE.

Divisions	General Fund	Other Funds	General Fund %	Other Funds %
Administration	$717	$5,817	1.07	8.69
Information Technology	$704	$3,655	1.05	5.46
Grants Administration	$3,032	$4,946	4.53	7.39
H Guarantee Services & Default Prevention		$21,048		31.45
Collections & Claims		$25,372		37.91
Policy & Research	$522	$1,111	.78	1.67
	$4,975	$61,949	7.43	92.57

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